

The coming Brexit cash flow crisis

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What will next April be like? I suggest April is the moment of concern simply because we will leave the EU on 29 March with no guarantee of a transitional deal, but I assume it will take a few days for the shock to hit.

I make the point deliberately that a shock will hit. I am well aware that millions of people cannot work out what the fuss about leaving Brexit is all about. As far as I can tell, they think leaving the EU is about as hard as leaving a pub: you decide to go, walk out and let the door slam behind you, appears to be their attitude. I don't wish to be patronising when saying that: I am instead reflecting what appears to be the commonly held incomprehension that there is any issue to deal with here.

The biggest shock of Brexit will, then, be the dawning reality that leaving the EU changes a lot, and at the same time very little. For example, there will be no mass expulsions of migrants from the UK. That's going to disappoint many. That was, many think, what this was all about. At the same time there will be economic chaos.

Again, I use the word deliberately. Let's assume that somehow or other the most potent indications of separation will not happen. Let's assume then that, against the odds, planes do still fly to and from the EU. But let's assume there is Hard Brexit, without agreement, because nothing else seems plausible right now.

This will mean that planes might fly and ships might sail. But how long it then takes to get into and out of the UK is anyone's guess. Unless the UK decides to abandon all border controls, the flow of people into the UK will take longer than it did before. And IT systems previously shared with the EU probably just won't work. But we may get round this by simply giving up migration control. But the EU, I think we can be fairly sure, will not be so relaxed. Getting out of this country next year is likely to be hard work.

However, people will be the easy bit. It's goods that matter. And again, even if we decide to throw open our borders (with considerable risk to loss of existing tariff revenues arising as a result) there is no prospect of other countries doing so, in my opinion. The EU will impose tariffs on UK sourced goods, and these and VAT on import

will be collected, as they should also be in this country, without (it has to be added) the advantage of EU based IT systems.

I am not saying the additional time per consignment need be much. Only a fractional increase is required for chaos to ensue, and we in the UK (at least) have done nothing to prepare for this, at all. Nor, I suspect, have we now got any time to do so. The warnings have been given, time and again, and have been ignored. The consequences will follow.

Most suggest these consequences will arise from reduced investment and problems in complex supply chains criss-crossing the EU into and out of the U.K. I accept that there will be problems there. This will happen. Investment is already declining in anticipation of this. Disinvestment is likely soon.

But this dimension, and the loss of jobs, will be for the long term. In April 2019 the problem will be short term, fundamental, and catastrophic.

Every truck stuck at a port will not be working. It will take days for supply chains to collapse as all trucks will go into short supply as there will be simply too many at ports.

Paying for trucks to do nothing will cripple those hiring them.

The possibility that VAT will be due on import will be devastating for the cash flow of many small businesses.

And goods will simply not arrive. Some will perish, and the owners will not be able to sustain the losses.

Some will be too late to be useful, and payment disputes will proliferate.

And people will stand idle as all this goes in.

Losses will mount.

I think all this is foreseeable. In precisely which order, and what timescale I am not sure. But in April 2019 seems likely to me. And the result will be a national cash flow crisis.

Business survives on keeping money moving. As we know, money is nothing more than a promise to pay. If the delivery on that promise is delayed - and that, I think, will be the inevitable consequence of Brexit - then a cash flow crisis follows. And in business, one broken promise leads to another, which leads to another. No one can be sure where a crisis at the ports created by Customs delays will lead. All I can be fairly sure of is that it will lead quite quickly to a cash flow crisis for importers, exporters, hauliers, those who depend on them, and into the wider economy. And at the same time I suspect a simple shortage of trucks will have a massive knock on effect in the national economy

as well.

Anyone who knows anything about business knows that it is cash flow crises that kill businesses. It's not, in my opinion, tariffs, changed regulation, the Irish border, disinvestment or anything else that will deliver mayhem in the UK next year. It's something much more prosaic that will do that. It will be giant traffic jams at ports that will impose lasting damage on the UK. So many businesses will suffer crippling cash flow problems the impact could be massive, and cumulative of course.

Mark Carney has said he may need to reduce interest rates to compensate for Brexit. He's not got much scope to do so. And the cost of money will not be the issue next year. It will be its absence that will matter as debts do not get paid. This is the coming crisis of Brexit. And it is beyond Mark Carney's reach to address it.

The government could though. It will be the only creditor able to waive what is owing next year and survive the experience. PAYE, VAT and other sums owing may have to be put on hold if business is to survive Brexit, in my opinion.

But, and let me make the point very loud and clear, that will require a government that understands money; the nature of debt and the the indifference government can have to accumulating deficits if they are used to keep the economy going, as will be the requirement next year. Without that understanding, and if the government imposes its own cash flow demands on business next year as it faces a crisis not of its own making, then the government could make things very much worse. And that is what I fear will happen.

I just hope I will be proven wrong, but systemically, this is, I think, by far the biggest and potentially most dangerous crisis Brexit might create, and the most urgent that has to be addressed. But I am not hearing that this is happening.